

Testimony in Support of HB 25
To the Senate Natural Resources and Energy Committee
March 30, 2007

543-0026

Chairman Lind, members of the Committee, my name is Gerald Mueller. I testify in support of HB 25 as a customer of NorthWestern Energy, but not on behalf of NWE or any other agency or organization. As I have previously emailed you, I have facilitated NWE's Electricity Technical Advisory Committee since its inception in 2002, so I am familiar with NWE's electricity resource planning and portfolio. A summary of my experience with electricity utilities in Montana and the Pacific Northwest is attached to this testimony.

In my judgement, HB 25 is one of the most important energy bills that this Committee will consider this session. If passed, it will establish a framework that will allow us to begin to recover from the damage caused by the Montana's disastrous experiment with electricity restructuring.

The restructuring damage was caused by the separation of MPC's customers, now NWE's default supply customers, from the generation resources built to serve them, the dams on the Missouri, Flathead, and Clark Fork Rivers, and the coal plants at Billings and Colstrip. This separation meant that the default supply customer had to be served via purchases from the wholesale power market. This market has not served NWE customers well. The market price of electricity has been and will continue to be much higher than the electricity produced by MPC's former dams and coal plants.

The key provisions of HB 25 are as follows:

- Section 7 ends customer choice and stabilizes NWE's customer base.
- Section 14, 69-8-421(7) authorizes NWE to make investments in electricity generation through building or by purchasing equity positions in new generation, and directs the Montana Public Service Commission (PSC) to provide rate recovery for resources that it approves.
- Sections 12 and 13 subject utility planning to guidance from PSC.
- Section 14, 69-8-421(1) allows a utility to seek PSC approval of electricity resources before the utility acquires them.
- Section 14, 69-8-421(8) states that this approval does not limit the ability of PSC subsequently to prevent rate recovery of costs that result from the utility's failure to "...to reasonably manage, dispatch, operate, maintain, or administer new electricity supply resources."

These provisions will allow NWE to make long-term equity investments in generation resources dedicated to serve its customers.

To make long-term equity investments, a utility must have a reasonable likelihood that it will recover them. A reasonable likelihood, in turn, is dependent on a stable customer base and the inclusion of the generation resource investments in rate base. As the preceding recitation of the bill provisions demonstrates, HB 25 provides for both in a manner that allows the PSC to protect customer interests. The PSC would guide utility resource planning and remain in control of what resource costs go into the rate base. If so requested, the PSC could approve a generation resource before the utility invests tens to hundreds of millions to billions of dollars in it. This pre-acquisition approval both will allow the PSC to apply public policy issues inherent in

resource acquisitions to a specific resource decision before the utility invests in it and will likely reduce the utility's cost to finance the investment.

Examples of public policy issues that should be made by the elected PSC and not the utility include:

- How much long-term resource "insurance" the utility should buy to protect customers against rate spikes;
- Whether and how the utility should favor resources such as conservation and renewables, whether and how potential regulatory changes such as carbon dioxide emission limitations should be addressed; and
- How much system reliability is enough.

The pre-acquisition approval would all but eliminate the risk that the PSC would subsequently disallow rate recovery for the utility's entire resource investment which would lower financing costs. The savings from the reduced risk and lower financing costs could and should be passed to customers, lowering their energy costs.

HB 25 clearly provides that the pre-acquisition approval does not limit the PSC from excluding costs from the rate base arising from the utility's failure to reasonably control resource construction costs and efficiently run and maintain its system.

There are no easy, quick fixes to the situation we find ourselves in due to restructuring. The low, pre-restructuring electricity rates are gone, and they are not coming back.

NWE customers now need a way to get out of the total reliance on the wholesale power market. They need the protection afforded by the PSC and the Montana Consumer Counsel in doing so. HB 25 provides both the way and the protection.

I urge you to vote to approve this bill.

Thank you.

Electric Utility-Related Experience of Gerald Mueller

Montana State Government

- 3/74 - 1/78 Air Analyst, Energy Planning Division, Montana Department of Natural Resources and Conservation
- 1/78 - 5/78 Program Manager, Major Facility Siting Act, Energy Planning Division, Montana Department of Natural Resources and Conservation
- 5/78 - 1/81 Administrative Assistant and Energy Advisor to the Lt. Governor of Montana, Ted Schwinden
- 1/81 - 4/81 Administrative Assistant and Energy Advisor to the Governor of Montana, Ted Schwinden
- 4/81 - 1/88 Montana Member, Northwest Power Planning Council

Energy and Natural Resource Consultant

NorthWestern Energy

- Facilitated Electricity Technical Advisory Committee (2002 to present).
- Facilitated Natural Gas Technical Advisory Committee (2004 to 2005).
- Facilitated Universal System Benefits Advisory Committee (2002 to 2004).

The Montana Power Company

- Facilitated Universal System Benefits Advisory Committee (1999 - 2001).
- Facilitated Conservation and Least Cost Planning Advisory Committee (1988 to 1998).
- Facilitated Collaborative on Customer Education and Pilot Programs (1997).
- Facilitated Free Weatherization Collaborative (1994).

The Western Montana Generation and Transmission Cooperative

- Strategic planning for the WMG&T Board of Directors (1998).
- Small Customer Buying Cooperative (1998).

Fergus Electric Co-op

- Strategic planning for the Co-op Board of Directors and management staff (2002).

Glacier Electric Co-op

- Strategic planning for the Co-op Board of Directors and management staff (2002).

Missoula Electric Co-op

- Strategic planning for the Co-op Board of Directors and management staff (2002).

Ravalli County Electric Co-op

- Strategic planning for the Co-op Board of Directors and management staff (1998, 2002, and 2004).

The Bonneville Power Administration

- Meeting facilitation, including meetings between the BPA administrator and staff and the four Pacific Northwest state public utility commissions and a four state teleconference concerning electricity restructuring (1997 to present).

Montana Human Resources Council Directors' Association

- Testified in an MPC rate case as an advocate of low-income weatherization.